

Financial Statements

**Montcalm Center
For Behavioral Health**

September 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Montcalm Center For Behavioral Health	County Montcalm
Audit Date 9/30/05	Opinion Date 11/23/05	Date Accountant Report Submitted to State: 3/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury. **RECEIVED**
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

MAR 28 2006

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations. **LOCAL AUDIT & FINANCE DIV.**

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ROSLUND, PRESTAGE AND COMPANY, PC			
Street Address 308 GRATIOT AVENUE		City ALMA	State MI
Accountant Signature <i>Roslund, Prestage & Company, P.C.</i>		ZIP 48801	Date 3/27/06

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INDEPENDENT AUDITOR'S REPORT

Montcalm Center for Behavioral Health
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Montcalm Center for Behavioral Health, as of and for the year ended September 30, 2005, which collectively comprise Montcalm Center for Behavioral Health's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Montcalm Center for Behavioral Health's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Montcalm Center for Behavioral Health, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2005 on our consideration of Montcalm Center for Behavioral Health's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-VIII, and budgetary comparison information on pages 28-29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montcalm Center for Behavioral Health's basic financial statements. The accompanying supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 23, 2005

**MANAGEMENT DISCUSSION
AND ANALYSIS**

Montcalm Center for Behavioral Health

Management's Discussion and Analysis

For the year ended September 30, 2005

This section of the Montcalm Center for Behavioral Health (the Authority) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2005. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

For fiscal year 2005, the source of Medicaid revenue continued to be the PIHP. In fiscal year 2003 the Michigan Department of Community Health (MDCH) began contracting for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. The Authority affiliated with Bay Arenac Behavioral Health Authority as the designated PIHP for a region consisting of Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority subcontracts for Medicaid funding through the PIHP, rather than directly with the state. State General Fund revenue and other grants and earned contracts continue to be sourced directly from the state.

Also, as of October 1, 2002, the beginning of fiscal year 2003, the Authority adopted the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). This Statement established new financial reporting requirements for state and local governmental units.

FINANCIAL HIGHLIGHTS

- Operating results show a deficit of \$118 thousand. Included in this result is a prior year charge of \$295 thousand for redetermination of allowable capital cost for Medicaid and State General Fund cost reconciliation purposes for Fiscal Years 2003 and 2004. Except for this issue, there would have been an operating surplus of \$177 thousand.
- Funds restricted for capital purposes decreased by \$295 thousand related to the prior year capital cost redetermination. At Fiscal Year end this fund balance is \$35 thousand.
- Funds restricted for risk management increased by \$19 thousand to fully fund the shared risk arrangement with the Michigan Department of Community Health up to the maximum amount allowed.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2005

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2005

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2005 and 2004.

Summary of Net Assets

As of September 30, 2005 and 2004

(In \$000s)

	<u>2005</u>	<u>2004</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
<u>Assets</u>				
Current assets	\$ 2,127	\$ 1,977	\$ 150	7.6%
Restricted assets	303	585	(282)	-48.2%
Capital assets	127	277	(150)	-54.2%
Total assets	<u>2,557</u>	<u>2,839</u>	<u>(282)</u>	-9.9%
<u>Liabilities</u>				
Current liabilities	813	854	(41)	-4.8%
Noncurrent liabilities	146	152	(6)	-3.9%
Total liabilities	<u>959</u>	<u>1,006</u>	<u>(47)</u>	-4.7%
<u>Net Assets</u>				
Investment in capital assets	127	277	(150)	-54.2%
Restricted for capital purposes	35	330	(295)	-89.4%
Restricted for risk management	122	103	19	18.4%
Unrestricted	1,314	1,123	191	17.0%
Total net assets	<u>\$ 1,598</u>	<u>\$ 1,833</u>	<u>\$ (235)</u>	-12.8%

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$1,314 thousand, an increase of \$191 thousand or 17%, compared to the prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

At year-end, current assets include \$60 thousand due from the PIHP for additional Medicaid funding under the local service area subcontract agreement. Also at year-end, current liabilities include \$229 thousand of unspent State General Fund formula

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2005

funding. Of this amount \$154 thousand is included in current liabilities as amounts due to the state as lapse and the remaining \$75 thousand as deferred revenue to be carried forward to next year. This is a significant change from the previous year where \$92 thousand had been unspent. This change was due to the reinstatement in fiscal year 2005 of voluntary reductions made to state general funds received during fiscal year 2004 in the amount of \$210 thousand for Section 236 transfers to other Community Mental Health Boards.

Restricted assets consist of cash and investments. These assets are restricted for capital purposes (funded depreciation), compensated absences, and risk management. Restricted assets of \$303 thousand have decreased by \$282 thousand or 48% from fiscal year 2004. The majority of the decrease (\$295 thousand) was due to the change in the determination of allowable capital cost for Medicaid and State General Fund cost reconciliation purposes for Fiscal Years 2003 and 2004. Originally Medicaid and State General Funds in these Fiscal Years had been assessed the depreciation on assets with remaining useful lives benefiting these periods. However, most of the assets for which depreciation was allocated, had been fully expensed and allocated in the year of purchase prior to October 1, 2002. Therefore the duplicate charge to Medicaid and State General Fund costs required correction. Such correction was made during fiscal year 2005.

Included in this category are assets restricted for capital purposes (funded depreciation). These are enabled by the Michigan Mental Health Code and are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2005, the Authority fully funded its annual depreciation expense of \$13 thousand, bringing the total balance through the end of fiscal year 2005 to \$35 thousand.

Also included are assets restricted to meet the obligation of earned but not utilized compensated absences of employees through the end of the fiscal year. This amount has decreased from \$152 thousand in fiscal year 2004 to \$146 thousand in fiscal year 2005.

The remaining assets restricted for risk management are related to the risk obligations of the State General Fund (formula funds) risk contract maintained directly with the state. Amounts funded to this account in prior years, together with current year interest earnings, required additional funding of \$16 thousand during fiscal year 2005. At year-end, the balance in this account was \$122 thousand and is funded to 7.5%, as compared to its contractual maximum annual risk exposure of 7.5% of the funds at risk.

Capital assets consist of property and equipment having an estimated useful life of more than one year and original cost in excess of \$5 thousand. These were previously reported in the general fixed asset account group. Under the provisions of GASB 34, these assets are now included on the statement of net assets at their original book value, restated to be net of the accumulated depreciation that would have otherwise

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2005

been reported in prior years. No capital assets were acquired in fiscal year 2005. The net value of capital assets has decreased by \$150 thousand due to increases to accumulated depreciation and the disposal of equipment during the year, resulting in a net value of \$127 thousand.

As of year-end, the net book value of capital assets was 14% of the original book value compared to 27% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences that includes vested vacation and sick pay obligations.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were \$1,314 thousand, an increase of \$191 thousand or 17% for the year. Unrestricted net assets were 51% of total assets, up from 40% from the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2005 and 2004.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2005

Summary of Activities

For the years ended September 30, 2005 and 2004

(In \$000s)

	<u>2005</u>	<u>2004</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
<u>Revenue</u>				
Medicaid specialty supports and services	\$ 5,218	\$ 4,593	\$ 625	13.6%
State general fund priority populations	1,353	1,295	58	4.5%
Adult Basic Waiver	189	222		
Program service revenue	75	104	(29)	-27.9%
Grants and earned contracts	111	245	(134)	-54.7%
County appropriation	188	188	-	0.0%
Interest income	53	21	32	152.4%
Other local income	2	2	-	0.0%
Total revenue	<u>7,189</u>	<u>6,670</u>	<u>552</u>	8.3%
<u>Expense</u>				
Personnel expense	2,692	2,519	173	6.9%
Operating expense	4,206	3,769	437	11.6%
Local funds contributed to State	95	95	-	0.0%
Depreciation	25	158	(133)	-84.2%
Total expense	<u>7,018</u>	<u>6,541</u>	<u>477</u>	7.3%
Excess of revenue over expense	<u>171</u>	<u>129</u>	<u>75</u>	58.1%
Transfer from (to) compensated absences	6	(23)	29	
Transfer to Affiliate and MDCH	(295)	-	(295)	
Change in net assets	<u>\$ (118)</u>	<u>\$ 106</u>	<u>\$ (191)</u>	-180.2%

Excess of revenue over expenses from activities for the current year was a surplus of \$171 thousand or 2.7% of revenue. This is an increase of \$75 thousand from the prior year surplus of \$129 thousand or 1.9% of prior year revenue.

Revenue for the year was \$7.2 million, an increase of \$552 thousand or 8.3% from the prior year.

Medicaid specialty supports and services revenue of \$5.2 million represents 72.6% of total revenue, an increase of 3.7% from 68.9% of total revenue in the prior year. It further represents an increase of \$625 thousand over the previous year. As began in fiscal year 2003, the source of Medicaid specialty supports and service revenues transferred from MDCH to a subcontract with the PIHP. This subcontract is on a net cost not to exceed basis. Additional Medicaid subcontract funds due from the PIHP of \$60 thousand are included as revenue and are shown as amounts from the PIHP as discussed above.

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2005

State general fund priority population revenue (formula funding) of 1.4 million represents 18.8% of total revenue and increased \$58 thousand or 4.4% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year revenue includes \$63 thousand of prior year deferred revenue. Unspent current year funds of \$229 thousand are not included in current revenue. Of this amount \$154 thousand is shown as a current liability due to be lapsed to MDCH and the remaining \$75 thousand is shown as deferred revenue available for next year.

Adult Basic Waiver revenue (capitation funding) of \$189 thousand represents 2.6% of total revenue. Beginning on October 1, 2003 the Department of Community Health initiated a new program to replace the State Medical Program with the Adult Benefits Waiver, authorized under Title XXI of the Social Security Act. The authority receives capitation at the rate of \$53.77 per month for each Montcalm County resident enrolled in the program. Any unused funds at the end of the fiscal year are available in the subsequent fiscal years and treated as local funds. During fiscal year 2005 \$52 thousand of these funds were actually expensed, leaving \$137 thousand available for local funding uses in subsequent fiscal years.

Program service revenue of \$75 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 1.0% of total revenue and have decreased \$29 thousand or 28% from the prior year. The reduction is due to a decrease in the number of children receiving services under the Children's Model Waiver program.

Grants and earned contract revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 1.6% of total revenue and have decreased \$134 thousand or 55% over the prior year. The reduction is due to a decrease in OBRA PASARR funding.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 3.4% of revenue and have increased \$32 thousand or 152% from the prior year. The county appropriation was unchanged. The increase was due to the rise in interest rates during fiscal year 2005.

Total expense of \$7.0 million has increased \$477 thousand or 7.3% compared to the prior year. Personnel expense is 38.4% of total expense and has increased \$173 thousand or 7%. Operating expense is 59.9% of total expense and has increased \$437 thousand or 12%.

FUTURE OUTLOOK

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding

Montcalm Center for Behavioral Health
Management's Discussion and Analysis
For the year ended September 30, 2005

for community mental health and specialty supports and services is unknown, but the outlook does not look good.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of the Authority is currently healthy, the economic outlook will continue to put significant pressure on our ability to serve and support our constituents.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$1,883,652	\$1,124,567
Accounts receivable, net	5,739	8,627
Due from other governmental units	72,206	681,397
Prepaid expenses	165,062	162,236
Total current assets	2,126,659	1,976,827
Noncurrent assets		
Cash and cash equivalents - restricted	302,961	585,480
Capital assets - depreciable, net	127,184	276,594
Total noncurrent assets	430,145	862,074
Total assets	2,556,804	2,838,901
Liabilities		
Current liabilities		
Accounts payable	449,137	332,132
Deferred revenue	75,469	63,368
Due to other governmental units	198,923	377,908
Accrued wages and other payroll liabilities	89,514	80,705
Noncurrent liabilities		
Compensated absences	146,248	152,192
Total liabilities	959,291	1,006,305
Net Assets		
Invested in capital assets, net of related debt	127,184	276,594
Reserved for risk management	121,682	103,232
Reserved for capital purposes	35,031	330,056
Unrestricted	1,313,616	1,122,714
Total net assets	\$1,597,513	\$1,832,596

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets	
		Charges for Services	Operating Grants and Contributions	2005	2004
Governmental activities					
Health & Welfare - Mental Health	<u>\$7,013,474</u>	<u>\$5,293,518</u>	<u>\$1,841,854</u>	\$121,898	\$83,801
General revenues					
Unrestricted investment earnings				53,161	21,144
Restricted investment earnings				<u>2,009</u>	<u>1,073</u>
Total general revenues and contributions				55,170	22,217
Transfers to affiliates and MDCH				<u>(295,025)</u>	-
Change in net assets				(117,957)	106,018
Net assets - beginning of year				1,832,596	1,723,101
Prior period adjustment				<u>(117,126)</u>	<u>3,477</u>
Net assets - end of year				<u>\$1,597,513</u>	<u>\$1,832,596</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

MONTCALM CENTER FOR BEHAVIORAL HEALTH
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$1,883,652	\$1,124,567
Accounts receivable, net	5,739	8,627
Due from other governmental units	72,206	681,397
Prepaid expenses	165,062	162,236
Cash and cash equivalents - restricted	181,279	482,248
Total assets	\$2,307,938	\$2,459,075
Liabilities		
Accounts payable	\$449,137	\$332,132
Deferred revenue	75,469	63,368
Due to other governmental units	198,923	377,908
Accrued wages and other payroll liabilities	89,514	80,705
Total liabilities	813,043	854,113
Fund balance		
Reserved for prepaid expenses	165,062	162,236
Reserved for capital purposes	35,031	330,056
Unreserved	1,294,802	1,112,670
Total fund balances	1,494,895	1,604,962
Total liabilities and fund balances	\$2,307,938	\$2,459,075

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Total fund balance - governmental funds	\$1,494,895
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	892,626
Deduct: Accumulated depreciation	(765,442)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: Net assets of governmental activities accounted for in the internal service fund	121,682
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences	<u>(146,248)</u>
Net assets of governmental activities	<u><u>\$1,597,513</u></u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

REVENUES	General Fund	
	2005	2004
State grants		
State general fund - DCH contract	\$1,353,386	\$1,295,118
Adult Benefit Waiver	189,002	221,640
MI child	11,952	13,702
MDCH grants	-	1,583
Title XX	1,845	1,845
Total state grants	1,556,185	1,533,888
Federal grants		
Runaway grant	31,808	33,640
Drop in center grant	42,583	36,445
PAS / ARR grant	9,303	124,871
Total federal grants	83,694	194,956
Contributions - local units		
Local funding	188,053	188,053
Charges for services		
Medicaid - affiliate contract	5,218,403	4,592,835
Medicaid - other	-	36,386
Client and third party pay	75,115	67,828
Total charges for services	5,293,518	4,697,049
Interest and rents		
Interest	53,161	21,144
Other revenue		
Miscellaneous	13,922	35,108
Total other revenue	13,922	35,108
Total revenues	7,188,533	6,670,198

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
EXPENDITURES		
Health & Welfare - Mental Health		
Personnel expenditures	\$2,691,740	\$2,519,306
Operating expenditures	4,302,335	3,864,027
Total expenditures	6,994,075	6,383,333
Excess of revenues over expenditures	194,458	286,865
Other financing sources (uses)		
Transfer to affiliates and MDCH	(295,025)	-
Operating transfers in (out) - internal service fund	(16,441)	60,799
Excess of revenues and other sources over expenditures and other uses	(117,008)	347,664
Fund balance, beginning of year	1,604,962	1,265,124
Prior period adjustment	6,941	(7,826)
Fund balance, end of year	<u>\$1,494,895</u>	<u>\$1,604,962</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Net change in fund balances - total governmental funds (\$117,008)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Add:	Capital outlay	-
Deduct:	Depreciation expense	(25,343)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The net revenue (expense) of the fund attributable to those funds is
reported with governmental activities.

Add:	Interest income from governmental internal service fund	\$2,009
Add:	Transfers in to the governmental internal service fund	16,441

Some expenses reported in the statement of activities do not require the
use of current financial resources and therefore are not reported as
expenditures in the funds.

Add:	Decrease in accrual for compensated absences	<u>5,944</u>
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Change in net assets of governmental activities (\$117,957)

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Assets		
Cash and cash equivalents	<u>\$121,682</u>	<u>\$103,232</u>
Net assets		
Restricted for risk management	<u>\$121,682</u>	<u>\$103,232</u>
Total liabilities and net assets	<u>\$121,682</u>	<u>\$103,232</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Non-operating revenue		
Interest income	\$2,009	\$1,073
Operating transfers		
Operating transfers in (out) - general fund	16,441	(60,799)
Net income	18,450	(59,726)
Retained earnings, beginning of year	103,232	162,958
Retained earnings, end of year	<u>\$121,682</u>	<u>\$103,232</u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Cash flow from operating activities	-	-
Cash flows from noncapital financial activities		
Operating transfers in (out) - general fund	\$16,441	(\$60,799)
Cash flows from investing activities		
Proceeds from interest earnings	2,009	1,073
Net increase (decrease) in cash and cash equivalents	18,450	(59,726)
Cash and cash equivalents, beginning of year	103,232	162,958
Cash and cash equivalents, end of year	<u>\$121,682</u>	<u>\$103,232</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Montcalm Center for Behavioral Health (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Montcalm who meet eligibility and other criteria.

As the community mental health services provider for Montcalm County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority.

Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2005 and 2004 has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund account is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Bay-Arenac CMH Authority and the State of Michigan.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are recorded as an expenditure when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have any infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Vehicles	5
Equipment & Furniture	5
Computers	5
Building Improvements	2 - 11
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability as well as future improvements and/or acquisition of major capital assets. Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the master contracts with DCH.

These restricted assets are held in a separate cash account with local financial institutions.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences and post-employment benefits are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, The Authority incurred expenditures in excess of the amounts budgeted, as shown on the budget comparison schedule in the back of this report as unfavorable variances.

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents was as follows:

	2005	2004
Petty cash	\$299	\$487
Checking, money market, and savings accounts	952,694	493,237
Certificates of deposit	930,659	630,843
Certificates of deposit - restricted	302,961	585,480
Total	\$2,186,613	\$1,710,047

At year-end, the carrying amount of the Authority's cash deposits was \$2,186,314 and the bank balance was \$2,477,883. Of the bank balance, \$205,000 was covered by federal depository insurance and \$2,272,883 was uninsured and uncollateralized. Some of the deposits that exceed FDIC insurance coverage are held at local banks.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Restricted Cash

The Authority holds, in a separate bank account, funds restricted to payment of compensated absences as they come due.

Cash has also been restricted for future improvements and/or acquisition of major capital assets.

Cash and cash equivalents in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the MCSSP contract.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

The restricted cash shown above represents cash and cash equivalents restricted for the following:

	2005	2004
Compensated Absences	\$146,248	\$152,192
Risk Reserve – Internal Service Fund	121,682	103,232
Capital Purchases	35,031	330,056
Total	\$302,961	\$585,480

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Due from Other Governmental Units

Due from other governmental units as of September 30th, consists of the following:

Due From	2005	2004
State of Michigan - OBRA	\$1,679	\$28,712
State of Michigan - Runaway Grant	3,120	1,442
State of Michigan – Drop In Grant	3,413	3,510
Bay-Arenac CMH Authority - Medicaid	63,451	645,433
Other	543	2,300
Total	\$72,206	\$681,397

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Prepaid Expenses

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid Expense	2005	2004
Insurance	\$37,797	\$33,951
Rent	65,000	65,000
Pension	39,119	37,226
Dues	7,184	7,060
Other	15,962	18,999
Total	\$165,062	\$162,236

Capital Assets

A summary of changes in capital assets is as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
CAPITAL ASSETS:				
Vehicles	\$144,634	-	-	\$144,634
Equipment & Furniture	390,703	\$3,019	-	393,722
Computers	344,940	-	(\$115,126)	229,814
Building Improvements	136,416	-	(11,960)	124,456
Sub-total	1,016,693	3,019	(127,086)	892,626
ACCUMULATED DEPR:				
Vehicles	(105,454)	(26,185)	-	(131,639)
Equipment & Furniture	(349,303)	(24,630)	-	(373,933)
Computers	(230,666)	48,120	-	(182,546)
Building Improvements	(54,676)	(22,648)	-	(77,324)
Sub-total	(740,099)	(25,343)	-	(765,442)
NET CAPITAL ASSETS	\$276,594	(\$22,324)	(\$127,086)	\$127,184

Depreciation expense in the amount of \$25,343 was charged to Health and Welfare – Mental Health Program.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

The Authority has established a reserve for capital purposes, otherwise known in the Michigan Mental Health Code as funded depreciation. Amounts funded to this reserve are restricted for the purchase, replacement, or improvement of capital assets or the retirement of debt related to such capital purposes. The reserve was subsequently fully funded with revenue received for depreciation expense. The balance of this reserve as of September 30, 2005 and 2004 was \$35,031 and \$330,056 respectively. During the year ended September 30, 2005, the Authority returned \$295,025 of these reserved funds to Bay-Arenac Community Mental Health Authority and Michigan Department of Community Health.

Deferred Revenue

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2005	2004
General Fund Carryforward	\$75,469	\$63,368
Total	\$75,469	\$63,368

Due to Other Governmental Units

Due to other governmental units as of September 30th, consist of the following:

Due To	2005	2004
State of Michigan – Cost Settlement – 9/30/04	-	\$28,433
State of Michigan – Cost Settlement – 9/30/05	\$154,496	-
Inpatient / Residential Facilities	44,427	132,412
State of Michigan – Section 236 Transfer	-	135,000
Access Alliance - Medicaid	-	81,913
Other	-	150
Total	\$198,923	\$377,908

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Operating Leases

Montcalm Center for Behavioral Health has entered into operating leases for the use of real property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the government-wide financial statements or the fund financial statements.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2005:

Year Ending September 30 th	Annual Cost
2006 - 2012	\$130,000
2013	65,000

Long-Term Debt

Compensated Absences

Authority policy allows employees to accumulate up to one year's allowance of vacation pay and to carry this accumulation for an indefinite time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense either when vacations are actually taken, upon election to receive a cash payment equal to 50% of one year's vacation earned, or upon termination of employment.

Sick pay can be accumulated up to 90 days and can be carried for an indefinite time into the future. Upon death or retirement, sick leave benefits are paid to an employee in the amount of 50% of the number of sick hours accumulated multiplied by their hourly pay rate. However, upon termination of employment, all sick leave benefits are forfeited.

As of September 30, 2005 and 2004, the liability for compensated absences was \$146,248 and \$152,192, respectively. This includes an amount for the related liability for retirement and FICA.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

Reserves and Designations

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

A portion of net assets has been reserved to be used for future improvements and/or acquisition of major capital assets.

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

Prior Period Adjustments

Prior period adjustments shown in the statement of activities in this report represent the adjustment to fund balance due to the following:

Adjustment	2005	2004
Adjustments to cost settlement – 9/30/04	\$3,016	-
Adjustments to net capital assets beginning balance	(136,894)	-
Other	3,925	\$3,477
Total	(\$129,953)	(\$3,477)

Transfers Between Funds

The Authority transferred \$16,441 from the General Fund to the Internal Service Fund (risk reserve) during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements of the managed care specialty supports and services program contracts.

NOTE 4. OTHER INFORMATION

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

Pension Plan

Plan Description

The Montcalm Center for Behavioral Health Pension Plan (the "Plan") was adopted effective as of September 30, 1998 to provide retirement benefits for eligible employees. The County of Montcalm on behalf of the Authority initially adopted this defined benefit retirement plan and the provisions of this plan are designed to satisfy the requirements of Section 401(a) of the Internal Revenue Code of 1986, as amended. Each employee is eligible to be a member of this plan if they work 1000 hours or more in a calendar year. The plan provides for normal retirement at age 60 with 10 years of plan participation. Early retirement is available with a minimum age of 55 and minimum service of 25 years.

The normal retirement benefit is a monthly pension payable in an amount equal to 2% of monthly effective compensation in excess of social security covered compensation multiplied by years of service not to exceed 25 years, plus 1% of monthly effective compensation multiplied by years of service greater than 25. The normal retirement benefit is based on the effective compensation during the highest 5 consecutive years in the 10 years immediately prior to retirement. If retirement begins with less than 5 years of service, the benefit is based on the effective compensation during all years of service.

Effective compensation for a plan year is the compensation for the January 1 to December 31 period. Overtime compensation, bonuses, commissions, and any other extraordinary remuneration are counted. Commissions are averaged over one year. Vesting occurs after 5 years of participation. Periodic contributions are made to the trustee of the plan (Macatawa Bank) to cover the pension obligation of the employee's of the Authority.

Funding Policy

The amount of employer contributions is determined on a yearly basis. For the year ending December 30, 2005, employer contributions to this retirement plan was \$148,905 and employee contributions were \$71,136.

Additional information about this plan can be requested by writing to: Watkins, Ross & Company, 161 Ottawa Avenue, NW, Suite 505, Grand Rapids, Michigan, 49503-2769.

FICA Alternative / Money Purchase Plan

Plan Description

Effective June 1, 1999, the Authority adopted an alternative social security plan. Employee contributions consisting of 6.2% of wages were equally matched by the Authority. The provisions of the Plan were designed to satisfy the requirements of Section 401(a) of the Internal Revenue Code. Contributions were made to this Plan through October, 2003.

On October 28, 2003 the Authority held an employee referendum on the continuance of the alternative social security plan. By a vote of 28 to 12 the employees voted to return to the Social Security program. At the time of the next payroll, on November 7, 2003, contributions to the Plan ceased and were made instead to Social Security. All remaining funds in the Plan, which were 100% employee vested, were distributed on April 7, 2004 either as a taxable distribution of the funds or as a rolled over balance to other qualified plans.

Funding Policy

The employee's contribute 6.2% of their wages which is deducted from their pay. The Board matches this amount.

Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract as further explained in the note below.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

Montcalm Center For Behavioral Health
Notes To The Financial Statements

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits include \$5,000,000 for liability, \$1,479,481 for buildings and personal property, and \$1,500,000 for vehicle damage. The Authority also has approximately \$121,682 in a shared risk arrangement with the Michigan Department of Community Health."

Managed Care Risk Contract

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

Contingent Liabilities

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2005

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual And Final Budget
	Original	Final	Actual	
REVENUES				
State grants				
State general fund - DCH contract	\$1,600,298	\$1,600,298	\$1,353,386	(\$246,912)
Adult benefit waiver	197,000	189,002	189,002	-
MI child capitation	13,000	11,951	11,952	1
Title XX	1,845	1,845	1,845	-
Total state grants	1,812,143	1,803,096	1,556,185	(246,911)
Federal grants				
Runaway grant	-	-	31,808	31,808
Drop In Center grant	45,964	45,964	42,583	(3,381)
PAS / ARR grant	27,450	9,000	9,303	303
Total federal grants	73,414	54,964	83,694	28,730
Contributions - local units				
Local funding	188,053	188,053	188,053	-
Charges for services				
Medicaid - affiliate contract	5,166,279	5,236,458	5,218,403	(18,055)
Client and third party pay	70,200	70,200	75,115	4,915
Total charges for services	5,236,479	5,306,658	5,293,518	(13,140)
Interest and rents				
Interest	15,000	52,000	53,161	1,161
Other revenue				
Miscellaneous	47,334	48,334	13,922	(34,412)
Total other revenue	47,334	48,334	13,922	(34,412)
Total revenues	7,372,423	7,453,105	7,188,533	(264,572)

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2005

EXPENDITURES	Budgeted Amounts		Actual	Favorable (Unfavorable) Variances Between Actual And Final Budget
	Original	Final		
Health & Welfare - Mental Health				
Personnel expenditures	\$2,854,907	\$2,828,710	\$2,691,740	\$136,970
Operating expenditures	4,168,919	4,562,032	4,302,335	259,697
Total expenditures	7,023,826	7,390,742	6,994,075	396,667
Excess of revenues over expenditures	348,597	62,363	194,458	132,095
Other financing sources (uses)				
Operating transfers in (out) - affiliates	-	-	(295,025)	(295,025)
Operating transfers in (out) - internal service fund	-	-	(16,441)	(16,441)
Excess of revenues and other sources over expenditures and other uses	348,597	62,363	(117,008)	(179,371)
Fund balance, beginning of year	1,604,962	1,604,962	1,604,962	-
Prior period adjustment	-	-	6,941	6,941
Fund balance, end of year	<u>\$1,953,559</u>	<u>\$1,667,325</u>	<u>\$1,494,895</u>	<u>(\$172,430)</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2005 AND 2004

Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
Personnel expenditures		
Salaries and wages	\$2,063,628	\$1,966,530
Fringe benefits	622,826	548,926
Board per diem	<u>5,286</u>	<u>3,850</u>
 Total personnel expenditures	 <u><u>\$2,691,740</u></u>	 <u><u>\$2,519,306</u></u>

The notes to the financial statements are an integral part of this statement.

MONTCALM CENTER FOR BEHAVIORAL HEALTH
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2005 AND 2004

Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
Operating expenditures		
Accounting and auditing	\$13,952	\$14,119
Alliance and affiliation expense	8,328	10,492
Client transportation	67,291	72,883
Clinical services contracts	157,015	645,565
Community hospital inpatient	477,508	267,232
Consultants	31,868	167,160
Contractual program expense	861,671	-
Day program	-	143,685
Dues	13,155	11,672
Equipment maintenance	17,494	14,243
Equipment rental	1,021	1,018
Insurance and bonds	28,518	28,042
Janitorial supplies	4,404	2,933
MDCH state facilities - local	52,554	64,491
MDCH state facilities - state	250,780	179,484
Miscellaneous	161,481	27,890
Non-matchable expense	94,937	94,937
Office repairs	11,692	8,370
Printing and publishing	6,462	26,840
Public relations and advertising	25,657	10,222
Recruitment	13,835	10,160
Rent	148,357	147,114
Rent payment - residential homes	79,897	76,543
Residential placement	1,407,972	1,245,428
Respite services	-	164,328
Small equipment	28,138	24,720
Staff development	39,553	31,169
Staff travel	31,370	40,700
Supplies	52,237	38,636
Supported employment - janitorial service	21,889	23,392
Supported employment - job coaching	-	49,136
Supported employment - cash match MRS	-	22,840
Telephone	72,166	45,357
Temporary office help	2,542	6,804
CMC administration	79,060	82,389
Utilities	27,472	54,156
Vehicle expenses	12,059	9,877
	<u>\$4,302,335</u>	<u>\$3,864,027</u>
Total operating expenditures		

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Montcalm Center for Behavioral Health
Stanton, Michigan

We have audited the financial statements of the governmental activities and each major fund of Montcalm Center for Behavioral Health (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon, dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we have reported to management of the Authority in a separate letter dated November 23, 2005.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 23, 2005



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LOCAL AUDIT & FINANCE DIV.

MANAGEMENT LETTER

Board of Directors
Montcalm Center For Behavioral Health
Stanton, Michigan

In planning and performing our audit of the financial statements for Montcalm Center For Behavioral Health for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 23, 2005 on the financial statements of Montcalm Center for Behavioral Health.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 23, 2005

Depreciation Schedule

During our review of fixed assets we also found that the Authority does not have a computerized system in place specifically designed for fixed asset recordkeeping and for calculating depreciation.

We recommend that the Board consider using a depreciation software package. Such software will assist in keeping the depreciation accurate and up-to-date because the software calculates the depreciation automatically, tracks additions or disposals, and calculates gains or losses on disposals.

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.

Budget

Budget-To-Actual statements are required to be presented in the audit report on the modified accrual basis. Budgets often are prepared to comply with the reporting format requested by the Department of Community Health and may include items that are found in both the full accrual and modified accrual basis (i.e., principal payments, capital outlay, depreciation, compensated absences, gains and losses on disposal of assets, loan proceeds).

The current budget did not include an amount for transfers out. We recommend that management include budgeted amounts for transfers out, as applicable, when adopting or amending future budgets.